

The **San Diego** SMALL BUSINESS HANDBOOK

- Basic Start-up Procedures
- City, County, State and Federal Requirements



Provided by the
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**San Diego County
Office of Trade and Business Development
Small Business Handbook**

The San Diego County Small Business Handbook was created by the Small Business Development Center at Southwestern College, under Ken Clark's leadership. This was done in collaboration with the County of San Diego's Office of Trade and Business Development, and the City of San Diego. In 2002 the booklet was edited and updated by the County's Office of Trade and Business Development to ensure its accuracy. This booklet has an accompanying Resource Guide that offers business resources and contacts at your disposal.

This booklet is intended as a guide for the new business owner. This information is subject to change without notification. Prospective business owners are encouraged to contact the appropriate agencies for the most current information.

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Small Business Handbook

The objective of this planning guide and directory is to better educate and motivate prospective business owners in the use of available small business resources. It is important that business decisions be made after every business resource and its potential value are considered. Included in this directory and the accompanying resource guide, is a comprehensive listing of federal, state, regional, and local resources to assist you in maximizing your ability to compete in the expanding global economy. Most of the resources are at little or no cost and employ qualified professionals to assist you in taking your business to the next step. Knowing where and when to tap these resources will facilitate a more creative and cost efficient business start-up. Taking advantage of no-cost and inexpensive business resources has proven invaluable to many successful entrepreneurs.

INTRODUCTION

SELF ASSESSMENT

ASSESSING YOUR REASONS FOR GOING INTO BUSINESS IS THE FIRST STEP
In determining whether to enter into a new venture. After evaluating your motives, you must then be certain that you are ready to commit the necessary resources. The most important areas to analyze are your ability to make decisions and accept the responsibility for the results, your willingness to work longer hours while sacrificing your current lifestyle, and the financial risk you will be taking.

Begin your self assessment by listing the reasons why you want to open a new business. Compare the advantages and disadvantages for each of these reasons and then prioritize them from most important to least important. For example, you may want to escape the daily 9-5 working routine, but the odds are you will be replacing it with a 12-14 hour, 6-7 day a week routine. Next, conduct a more detailed self analysis to determine if you possess the personal characteristics needed to be a successful small business owner. To assist you with these issues, it is important to write down your response to a few questions.

1. Have you clearly defined your roles, goals, and values at this point in time?
2. What skills do you possess that are saleable, usable, and practical?

Business skills critical to the survival of any business are: sales, personnel management and law, accounting and bookkeeping, cash flow and break-even analysis, marketing and promotion, tax management, production and risk management, your ability to raise capital, and most of all your ability to reach your customers.

Personal skills which contribute to success are: the ability to lead and communicate ideas to others, being a self starter, your love and knowledge of the product or service, being competitive by nature, planning and organization skills, the ability to deal with adversity, being a moderate risk taker, having a healthy social conscience, and most of all the ability to make decisions under pressure and accept the responsibility for the results. Include what you perceive as your strengths and weaknesses.

3. Besides money, what will your new venture cost? Remember that everything has a price! How much time and energy are you willing to sacrifice away from your friends and family? Both physical and emotional stamina will be tested on a daily basis.

4. Do you have the sufficient capital to cover start-up costs and personal living expenses for at least the first 12 months of operation? Are you prepared, if needed, to temporarily lower your standard of living until your business is established financially?

5. Do you have work experience or business training in a similar business? It has been proven consistently through time that certain experience and specialized skills are needed to thrive in today's competitive business environment.

It has also been proven that the major factor in a successful business is the entrepreneur's overwhelming drive and passion to achieve. Optimistic attitudes, self-confidence, objectivity, resourcefulness, cheerfulness, and cooperation will also contribute to perseverance. So, if you sincerely feel you have the skills and resources to make it work, don't let anyone talk you out of your dreams.

A MAJOR REASON FOR BUSINESS FAILURE IS LACK OF PLANNING! This guide has been developed to assist you in constructing a logically arranged and reasonably complete plan and financing proposal. A Business Plan will be one of your most important documents, because it will transform your ideas into a realistic plan of action, helping you to establish credibility with outside sources of financing.

Make the time available to personally plan the start-up phase, so your values, beliefs, and assumptions are presented in your business plan. Describe in detail the proposed business and its products, services or manufacturing process. It is within this planning phase that you establish marketing and financial controls for managing your business. Also, by presenting a clearly thought-out, well documented plan of action you will indicate to any potential investors that you know what you want to do and how to do it, how an investment will grow, or a loan will be repaid.

The importance of planning cannot be overemphasized, because the process of creating a business plan forces you to take an objective, critical, and unemotional look at your business venture. You must identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot problems before they arise, and begin designing how you can best achieve your business goals.

COMPONENTS OF A BUSINESS PLAN

COVER SHEET: Identify the name and proposed location of the business or where the principals can be reached, including phone numbers. Identify the person who wrote the business plan. The Cover Sheet should be neat, attractive, and short. If you have a logo, include it. Use a separate cover sheet for each bank or capital source to which you plan to submit your financial proposal.

STATEMENT OF PURPOSE: State the objectives of your plan or proposal within a half page. Briefly, summarize your business and the key elements of the business plan. If your plan is to be used as a financing proposal, include responses to the following questions: Who is asking for money, how much, what is the money needed for, why does the loan or investment make sense, how will the funds benefit the business, and most importantly, how will the funds be repaid? This will require the development of cash flow projections as well as a projected profit and loss statement and balance sheet.

TABLE OF CONTENTS: Emphasis should be given to a format that makes it easy to find the section of most interest to the reader. It should assist you in organizing your business plan. Include a list of the major headings below, then as you create other documents add them to your Table of Contents.

THE BUSINESS: A written policy of your business. Identify the aims and goals of your business. Concentrate on clarity and simplicity when describing the nature of your product or service, the target market, the competition, the location, the management, and the personnel needed.

A. Description of Business: Describe the central activity of your business. Is it a retail, service, or a manufacturing operation? If production is involved, what engineering or design support will be needed? Should the products' parts be manufactured or bought from outside sources, then assembled? Define the nature of your product, its unique features, and how your product or service will be physically produced, packaged, and delivered. Is your new venture a start-up, expansion, or a take-over of a going concern?

Define the legal business form. Is it a sole proprietorship, partnership, or corporation, and who will run the daily operation? Also, include the business' proposed opening date and daily operating hours. In simple language, describe why you think your business will be profitable.

Take advantage of the insights and experience of possible competitors, they are one of your best sources of information. Asking advice and observing their business practices will help you define what special features your product or business may have.

B. The Market: Be knowledgeable about the people who will be buying your product or service, and how close they are located to your business. Define your target market by researching who needs your product or service. Your market will be defined by geographic location, socioeconomic groups, family structure, age, gender, lifestyle, disposable income, and purchasing habits.

Your target market must then be measured to evaluate how many potential customers are out there. Obtain information to determine the size of your market from local Chambers of Commerce, trade publications, Source Point/SANDAG, marketing consultants, schools, and the Federal Census Report found at your local library. Also, describe what share of the market you will realistically capture, and what is the market's growth potential.

A good marketing strategy must be well planned with pertinent and up-to-date information, explaining the scope of your business' marketing and selling activities, including its pricing policy. Describe how you will attract and keep your target market by explaining how you propose to reach your customers. Include the types of advertising and promotion that will be utilized.

Answering some important questions may clarify your marketing strategy: What distribution channels will your product be sold through to reach your target customers? How can you expand your market? How will you price your product to be profitable and competitive? Why will someone pay your price and will it make you profitable? What special advantages do you offer that justify the price you are asking? Will you offer credit lines to your customers and can you evaluate this credit risk? Can you afford to write off bad debts, remembering that offering credit will cost you money? Do you have a plan to absorb the effects it will have on your cash flow, because customer credit can represent an unexpected cash drain.

C. Competition: If your target market is defined and contains reasonable expansion possibilities, the next step is to size up your competition. Locate the five nearest competitors. Research who they are, where they are located, what types of specific products or services they provide, how profitable they are, what their strengths and weaknesses are, and if their business is increasing or decreasing, and why? Describe how their operation is similar and dissimilar to yours, and how your operation will be unique or different from theirs. Elaborate on the industry itself by defining the principle markets, the industry outlook, the industry size, and its major characteristics.

D. Location of the Business: Locate the ideal site, then figure how close you can come to it, remembering that rent is the combination of space and advertising (exposure). Describe both the location of the business and features of the area, traffic patterns, accessibility to customers, vendors, and suppliers, parking availability, description of the physical features of the building and cost of necessary improvements, zoning requirements, and terms of the lease or mortgage contract. Home-based businesses must ensure that they meet zoning requirements. Information about specific areas is available from Chambers of Commerce, real estate brokers, zoning and planning departments.

Do not go into business in a given spot simply because the price is low. Rent and purchase prices are usually fixed by market forces, and a low price can reflect low desirability. Different businesses have different location needs. If your enterprise is a manufacturing or wholesale operation, then low rent and easy access to transportation routes are important factors to consider. For most retail operations, exposure to people and accessibility to those people are most important. Keep a constant eye on changes in your location because populations shift, people move, zoning ordinances change, and your business needs may alter.

E. Management: Statistics show that roughly 90 percent of business failures are the result of managerial weakness. If you prepare a financial proposal, you should make sure your prospective financing source is aware of what steps you have taken to correct any weaknesses in your managerial staff. Use this section to highlight both your strengths and weaknesses in management. Include in your formal proposal only that which you feel is appropriate for potential sources of financing to know about your management team. The aim is to spot areas of potential weakness before problems arise. Cover these four areas in the Management section:

1. Personal history of principals: What is your business background, experience, education, special abilities and motivation? Be ruthlessly honest with yourself about your stamina, motivation, and your family support. Include a personal financial statement as a supporting document because potential sources of capital will want to see as much collateral as possible to secure the loan. Under most circumstances, the personal creditworthiness of the principals will be a major concern of the banker. You will most likely be asked to sign personally for the loan, risking your personal assets if the business fails.

2. Related work experience: Give a detailed summary of your experience. Do you have direct operational or managerial experience in this type of business, or other unrelated managerial experience? A balanced managerial team always builds on strengths and seeks to alleviate weaknesses.

3. Responsibilities: The scarcest asset you will have is time. Budget your time and spell out, in advance, who will do what, who reports to whom, and where the final decisions get made. Allocating duties and responsibilities is critical.

4. Salaries and Expenses: A simple statement of what the management will be paid is sufficient. Complete a Cost of Living Budget form to figure out what you need to live on. Have enough savings to cover at least the first twelve months of personal expenses. Evaluate what resources are available to the business. All businesses, no matter how small, need the advice of an accountant, attorney, banker, and an insurance broker.

F. Personnel: Businesses stand or fall on the skills of their personnel. Evaluate your personnel needs in the present, what they may be in the near future, and also evaluate proposed needs in the distant future. Include in this analysis the skills they must have, the availability of qualified personnel, full or part time, salaries or hourly wages, fringe benefits offered, and the cost to train employees. Hire people only when it will result in added profitability to your business.

G. Loan application and expected effect of loan: To determine how much capital you will need and for what purpose, answer the following questions. How is the loan or investment to be spent, and on what items? Who is the supplier, and what are the prices? What are the freight and installation fees? What are the pros and cons of leasing and owning your equipment? How will the loan make your business more profitable?

H. Summary: Briefly sum up the key ideas you have developed in the preceding sections. This will help make sure the different parts support each other logically and coherently. Leave the reader with a concise, convincing statement that the project and plan are feasible.

FINANCIAL PLANNING AND ANALYSIS

It is critical to set policy and control within your plan, enabling you to realistically evaluate the profitability of your venture. *Policy* is establishing what your business will do, while *Control* is measuring the accomplishment of your policy goals. Start with all your key assumptions regarding wages, benefits, pricing, production costs, sales, volume, marketing projections, and inflation. Then project a budget based on current or desired funding, itemizing average total expenses per month. Make income and cash flow projections, as well as measures of performance on a weekly, monthly and yearly basis. The heart of this analysis will be your accounting system.

The expense for starting-up your new venture must be accurately computed. Adequate financing is critical and must allow for the following expenses: down payment on purchase or deposit on lease of a business premise, improvement costs, purchase or lease of equipment, initial inventory purchases, employee training, telephone and utility installation fees and deposits, image or logo costs, stationery and supply costs, purchase of bookkeeping system (invoices, order forms, software, etc.), special licenses, taxes, and permit fees, professional services (accountant, attorney, consultant), advertising and promotion, travel expenses, prepaid insurance premiums, trade association membership dues, deposit for Board of Equalization (sales taxes), and much more.

Funds for other start-up costs, such as owner and employee wages must be available to cover at least the first twelve months of operation and to provide a cash reserve for emergencies. Projections or forecasts are also critical to accurately evaluate the feasibility of your deal and to plan the size of the investment required to get the business to a stable level of operation. Monthly income and expenses should also be estimated for at least the first year of operation, using a Projected Operating Statement. Predict the sales volume and the rate at which it will expand, the cost to produce the goods to be sold (materials, labor, freight), the fixed monthly operating expenses (rent, utilities, insurance), controllable monthly operating expenses (advertising, salaries), and also predict net profit or the cost of goods and expenses minus sales, before taxes.

The next step towards managing your business for profit is to establish a bookkeeping system. It should provide you with the raw data for the major control documents (balance sheet, break-even analysis, income statement, cash flow, and deviation analysis). Make it simple enough to keep up-to-date daily cash controls, using a checkbook and a tape cash register. Your goal is to make a profit and to pay bills as they come due. The income statement and cash flow statement will reflect this by showing how well the company is managing its cash (liquidity) by subtracting actual bills paid from actual cash collected.

The break-even analysis cannot be ignored, because it shows the volume of revenue from sales that is necessary to exactly balance fixed and variable expenses. The balance sheet is directly affected by the cash flow and income statement, because it records what the cash position (liquidity) and the owner's equity of the business is at a given point in time. The key point is to at least control your cash flow, because a business that can't pay its bills will not survive, even if it is operating at a profit.

Financial experts consider return on investment (ROI) one of the best criterion of profitability and managerial efficiency. Return on investment determines if the rate of return on the money invested in the business will be greater than the rate of return on the same money invested elsewhere. The ratio is determined by dividing net profits (before income taxes) for a certain period by net worth at the end of the period, and is expressed as a percentage.

Budgeting, balancing objectives with reality, then guiding the business to achieve the goals within the budget constraints, is the real test of managerial ability.

HOW YOU DECIDE YOUR BUSINESS IS TO BE LEGALLY STRUCTURED will affect your taxes and other government regulations, how you draw profits, your ability to raise capital, your control and flexibility of daily operations and assets, and your protection from personal liability.

Most start-up businesses begin as a *Sole Proprietorship or Partnership*, but many eventually explore the transition into a *Corporation*. Contact a tax attorney or accountant for assistance on the advantages and disadvantages of each legal structure, and the benefits of written partnership agreements.

Answer some basic questions such as how much control you want to have over the operation, how much money is needed and where it will come from, what business skills are needed that you will not provide, how will the business be taxed, how much liability are you willing to risk for business debts, and what will happen to the business if something happens to a key principal?

A Sole Proprietor retains sole responsibility and control of the business. It is the quickest and easiest way to start a business. It is the least regulated and least expensive form of ownership, yet holds you personally responsible for raising capital and any claims against the business. You must file business and personal income taxes at the same time because business income is taxed as personal income.

A General Partnership is a pooling of capital and skills of two or more owners to conduct business. An application for a *Statement of General Partnership* can be mailed to you or obtained from any Recorder County Clerk's office. A partnership is a legal mechanism that divides profits and losses between participants, yet a partnership is not a separate legal entity. Each partner is taxed on his or her share of the partnership income at their personal income tax rate, and liability will extend to the personal assets of the general partners. Although partnerships permit greater financial flexibility and many also allow individuals with complementary skills into management, involvement of more people will increase the complexity and the amount of paperwork. It is crucial that partners have a qualified attorney draw up a partnership agreement, which sets forth each partner's respective rights and responsibilities.

A Limited Partnership permits investors to become partners without assuming unlimited liability. Limited partners usually risk only as much as their original investment and exercise limited control over the activities of the partnership. These partnerships must file a *Certificate of Limited Partnership* for approximately \$70.00 with the California Secretary of State.

A Corporation exists as a separate entity apart from its owners, the shareholders. As a legal entity, it makes contracts, it is liable, and it pays taxes. A corporation can attract capital by selling registered stock certificates to select investors or to the public. Incorporation can be advantageous because credibility and personal assets are protected if the business fails or is sued. Yet, it can also end up being costly and complicated, and substantially limit or eliminate your control over the business. The owners of a business must file *Articles of Incorporation* and pay approximately \$915. Included in this fee is a State Franchise Tax, and a filing and special handling fee. A minimum Franchise tax of approximately \$800 will be paid annually after the Articles have been filed. A fee of approximately \$10 will also be charged annually to record a statement on the officers of the corporation. Obtain an application from the California Secretary of State.

To set up a corporation, you must file an application for a legal name. A recording fee of approximately \$17.00, to the County Recorder, 1600 Pacific Highway, Suite 260, San Diego, California 92101 at 619-237-0502, will be charged to register one business name and owner. An additional business name or owner's name added to the application will cost roughly \$3 each. You must first research your business prospective name, then file a *Fictitious Business Name Statement* and pay the recording fee in the County Recorder's office. This will insure that your new business name is not in conflict with an existing business.

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www.ss.ca.gov

**Limited
Partnership**
916-653-3365

**State Franchise
Tax Board**
800-852-5711

**Articles of
Incorporation**
916-653-2318

**State
Department of
Incorporations**
1350 Front Street,
Room 2034
San Diego, CA
92101
619-525-4233

An S-Corporation is a unique type of corporation that provides the advantages of a corporation but, unlike a corporation, is treated like a flow-through entity for income tax purposes. Income is reported individually by the owners or stockholders on their personal tax returns, and losses may be deducted against other sources of income.

A Limited Liability Company (LLC) may be treated as a partnership or corporation for California tax purposes. An LLC will be treated as a partnership if it lacks two or more of the following corporate characteristics: limited liability, continuity of life, free transferability of interests, and centralized management. However, unlike a partnership, the members of the LLC are not personally liable for its debts and liabilities. An LLC treated as a partnership shall pay an \$800 annual minimum tax. Alternatively, an LLC may be taxed as a corporation if it possesses more than two of the corporate characteristics outline above.

Contact the Secretary of State for an application to register as an LLC, and file *Articles of Organization*. For tax information, contact the State Franchise Tax Board. Keep in mind that the LLC Unit of the Secretary of State will not, under any circumstances, advise attorneys, accountants, or the lay public on the legal and tax implications.

To reserve a name, prior to the filing of the Articles, an applicant may, upon payment of a \$10 fee, obtain from the Secretary of State a *Certificate of Reservation* of any name not prohibited. Send a letter containing the name to be reserved and the requisite filing fee to the LLC Unit of the Secretary of State. The reservation of a name is not a prerequisite to filing the Articles, but it will hold your approved name for a period of sixty days.

FINDING CAPITAL IS ONE OF THE MOST IMPORTANT STEPS when starting a new business. Although most small businesses will begin with money from personal savings, family or friends, there may be a time when a bank loan is necessary for new equipment or business expansion. If you create and sustain a professional relationship with your banker you will increase the chances of loan approval.

Start-up businesses do not have easy access to loans because lenders tend to look for a few years of profitable operation before they consider lending. If you do a little research, organize your financial information and write a business plan and financing proposal, you may find a creative way to finance your new venture.

An important concept to remember is that a new business is vulnerable because it is starting out with little or no momentum. This makes it critical that you have enough cash to cover start-up costs, support your personal expenses for at least the first twelve months, and at the same time have enough in reserves to get you through a rough start and any unplanned emergencies. It is also unrealistic to think that you will start with a minimum amount of money, and reinvest the profits back into the business until it has grown to the size you want. It will take a minimum amount of money to survive, but even more to grow. Keep enough cash reserves around, so if the business has a rough start or enters a slow season, the reduced cash flow won't put you at risk.

It is a good idea to start planning a financing strategy early, well before you need the money. Looking at all the options and keeping your financial records in order will better your chances for obtaining financing if it is needed.

Applying for a loan is not particularly complicated. Yet, the loan process may be time consuming and frustrating. Sound business borrowing is based on a few fundamental concepts. And, it is important to familiarize yourself with basic components, because they may ultimately affect whether your loan package is approved or not. If you follow the banking industry's benchmark for gauging your creditworthiness, the **Five Cs**, your chances for final loan approval will increase. The **Five Cs** are character, credit, cash flow, capacity, and collateral.

A banker first analyzes your loan package to assess your character. The lender's opinion of your integrity, and your intention to repay the loan is crucial. Your credit report will then be used to determine how well you've managed your financial obligations. Lenders are also interested in

your business' cash flow, because it is an indication of your capacity to make the scheduled loan payments, while still surviving emergencies and business downturns. To figure out your cash flow, add your net profit plus your non-cash expenses (depreciation and amortization). If you are a sole-proprietor, a bank will look at your debt-to-income ratio to be less than 50 percent.

Analyzing the capital of the business will indicate how much leverage has been used to finance the business. It compares the percentage of assets owned by the company (equity) to the percent owned by creditors (liabilities). The less leverage (i.e. the less already owned), the more likely the lenders are to approve this request. This leads the banker into evaluating your capacity to succeed in the new venture. By analyzing personal financial statements and tax returns for the last three years, a lender will determine your ability to convert other assets to cash, giving you a secondary repayment source.

Most business financing is secured with collateral. Personal assets such as CDs, stocks, business assets, real estate, accounts receivable, inventory, and equipment may be put up for collateral, decreasing the assumed risk to the lender. Again, collateral is security, and is considered a lender's second source of repayment. The more collateral you have, and the easier it can be turned into cash, the more favorable it is to the lender. If needed, a co-signer may also increase your chances for loan approval by pledging their personal assets for collateral. To qualify for an unsecured loan, your business must be well-established and consistently profitable with a net worth being equal to or greater than your loan.

Understanding what kind of loan, and how much money is needed are two areas that are frequently overlooked by new borrowers. It is important for the banker to be satisfied that you know what you are going to do with the money. The answer to that question will usually determine if you need a short-term or long-term loan. The objective here is to match the use of the loan proceeds, the useful life of the collateral, and the length of the loan. Avoid financing long-term assets with short-term debt, because this can mean a cash crunch in times when you may need the money to survive.

To make the difference between an approval and a decline of your loan request, communicate in your loan package the amount of money requested and reasonable repayment terms. And remember to keep in mind that the more professional your business plan and loan package appear and the more you appear in control of your business, the better your chances are.

Once your loan package is presentable, target the most likely source for funding. The best way to do this is to decide how the relative merits of your package fit into the prospective money sources' objectives. There are two basic forms of financing: debt and equity. In *debt financing*, the money source will make a loan and charge interest for the use of the money. In *equity financing*, the money source buys a share in your company and makes money from a percentage of your company's profits. Debt financing will usually come from financial institutions, factoring companies, equipment leasing companies, etc. Equity financing can come from venture capitalists, Minority Enterprise Small Business Investment Corps., Small Business Investment Corporations, and private investors, such as family and friends.

SMALL BUSINESS ADMINISTRATION LOAN GUARANTEES

If your loan remains a substantial credit risk, ask your bank or contact a local Small Business Administration (SBA) representative to assist you in applying for an SBA loan guarantee. The SBA offers financial assistance primarily through several types of loan guarantees, available to businesses, which meet certain qualifications. Although all commercial lending institutions are authorized to make SBA loans, *Certified SBA Lenders* are capable of achieving a faster loan approval turnaround time. *Preferred Lenders* are further authorized to make SBA loan guarantees without obtaining the approval of the SBA. You can obtain SBA loan packaging services from the Community Development Corporation/Small Business Finance Corporation (CDC/SBFC).

If your loan request falls outside the scope of the SBA programs, you may be eligible for assistance from the California Southern Small Business Development Corporation, an agency that serves as guarantor of short-term credit facilities through a State Loan Guarantee Program (CS-SBDC). These and other financing alternatives are listed in the *San Diego County Resource Guide*.

**Community
Development
Corporation
and Small
Business
Finance
Corporation**
619-291-3594

**State Loan
Guarantee
Program**
619-232-7771

Other lending avenues open to you include: savings and loans, thrifts, credit unions, mortgage companies, consumer finance companies, venture capital, capital corporations, and commercial loan companies. Suppliers of merchandise and equipment may also furnish capital in the form of credit, if leasing companies or receivable and inventory backed lenders are not an option.

The SBA and Small Business Development Centers have a wide variety of information on financing your business.

CHOOSING THE RIGHT LOCATION FOR YOUR BUSINESS IS CRITICAL to attracting and maintaining a steady stream of loyal customers. Specific requirements for your new site should be researched early and will depend on the type of business, the type of goods or services, and the target market sought. Important factors to finding a suitable location must be considered before making a commitment to setting up shop. Begin by doing research on economic, demographic and traffic patterns, available transportation and freight services, the local labor force, compatibility with neighboring businesses, zoning, merchant's associations, responsiveness of the landlord, and lease agreements.

The first step in choosing a business location is to define in broad terms the type of business you are in and then determine your long-term objectives. A key to success is to outline your present and future needs and then find a location that best suits these needs. Most businesses will want to concentrate on how much retail, office, storage, or workroom space is needed, the proximity to suppliers and customers, special lighting, heating or cooling required, available transportation and costs, labor and utility availability and costs, state and local zoning, taxes, and other industry-related regulations.

A retail store owner's primary concerns will also include local population and income trends, traffic patterns, parking and restroom availability, location of competitors, neighboring businesses and institutions. It is critical that an adequate amount of your target customers live close and have public transportation available to reach you. Adequate exterior lighting is a major factor in making customers feel safe and contributes to attracting more evening shoppers.

Compatibility of your business to the surrounding area and existing businesses is also critical for new retail stores because of limited funds for advertising and promotion. It is important to locate near businesses that generate traffic for your store, and avoid locating near businesses that may clash with your products or image. Industries that are predominant in an area may bring seasonal or steady business. Growth or decline of these key businesses, and the local population must continually be monitored.

Because of the group strength it can give to individual owners, merchant's associations can greatly improve your chances of success. Businesses have the potential of saving money through these groups by sharing advertising expenses, insurance plans, improvement expenses, and collective security measures.

Responsiveness of the landlord to the individual merchant is another area that may cripple or increase business. Restrictions and lack of maintenance by landlords may become unplanned expenses that may be avoided by taking the time to survey past and present tenants of each potential site. Also make sure that the landlord will permit you to install adequate signs to draw in customers.

Do not plan to build, rent, or lease until you are sure you have the site that best fits your business and your circumstances. Be aware of the health department, fire and police departments, air pollution control districts, and zoning requirements before committing yourself. Don't settle for a location you hope might work out. A few months delay is only a minor setback compared to the massive, often fatal problems that occur from operating a retail business in a poor location.

Further assistance on site location is available through the County's Office of Trade and Business Development, chambers of commerce, the SBA, SBDCs, economic development agencies, real estate brokers, and banks.

SIGNING A RENTAL OR LEASE AGREEMENT

Before you enter into any lease agreement, research future zoning plans and decide how long you wish to remain at the location under consideration. Because it is a legally binding contract, it is recommended that a lawyer and an insurance agent review any lease agreement. Basic questions to ask include:

- What are the terms of the contract?
- Is there an option to expand if business is good?
- How is rent determined? (Flat rate, percentage of lease, or monthly minimum plus a percentage of sales.)
- Is rent high or low in relation to the area, the facilities being rented, and the percentage paid by similar firms?
- Who owns any improvements made by the tenant?
- How much insurance does the landlord hold, and is the tenant required to have certain coverage?
- What are the lease renewal provisions?
- And finally, does the tenant have the right to sublet?

THE IMPORTANCE OF INSURANCE TO PROTECTING A GROWING ENTERPRISE cannot be over emphasized. Insurance coverage for general liability, product liability, fire and similar disasters, robbery, theft, automobile, and interruption of business should be considered. Contact an insurance agent to develop a reasonably priced package specifically tailored to your needs.

If you hire employees, Workers' Compensation Insurance is mandatory. Employee life, health, and disability insurance have also become important to keep competitive with other firms hiring and retaining capable employees. It may also be necessary to inquire about Fidelity Bonding employees that may have access to cash and other assets.

As a business owner, you must learn to evaluate risks and the associated insurance costs, as well as evaluate insurance agents and the services these companies provide.

START-UP CHECKLIST

- ☐ SELF ASSESSMENT – skills, personality traits, motivations, sacrifices, risks
- ☐ WRITTEN BUSINESS PLAN – research, planning, financial proposal
- ☐ LIST START-UP COSTS – equipment, inventory, taxes, living expenses, etc.
- ☐ INCOME – do not expect to pay yourself from potential profits, save money to pay yourself
- ☐ COMPETITION – who, where are they, what do they provide, strengths/weaknesses
- ☐ CUSTOMERS – research people buying your product or service, keep in touch
- ☐ MARKETING – identify and strategically attract customers with your message
- ☐ MERCHANDISING – floor space, inventory, quality employees, pricing, distribution
- ☐ PRODUCTION – suppliers, cost efficient products or services
- ☐ LEGAL STRUCTURE – sole proprietor, partner, corporation, taxes and liabilities
- ☐ OBTAINING FINANCING – whose money and is it enough, sound credit history
- ☐ BANKING RELATIONSHIP – ongoing banking is key to future loans
- ☐ SELECTING A LOCATION – accessibility to customers, cost, buy, lease, contracts
- ☐ INSURING BUSINESS – evaluate liability risks, commercial insurance coverage
- ☐ RECORD KEEPING – bookkeeping system, receipts, invoices, cash registers
- ☐ ACCOUNTANT – advise on tax structure and savings on income and employee taxes
- ☐ ATTORNEY – consultation on variety of legal issues of business ownership
- ☐ PROFESSIONALS – not the time to go it alone, graphics, image and public relations

CITY REQUIREMENTS

- ☐ CITY BUSINESS TAX CERTIFICATE
- ☐ PLANNING, BUILDING PERMITS
- ☐ ZONING, LAND USE RESTRICTIONS
- ☐ SIGN ORDINANCES
- ☐ BUSINESS IMPROVEMENT DISTRICTS
- ☐ FIRE CODES
- ☐ SPECIAL PERMITS
- ☐ POLICE REGULATED BUSINESSES, PERMITS

COUNTY REQUIREMENTS

- ☐ COUNTY HEALTH DEPARTMENT
- ☐ COUNTY ASSESSOR-PROPERTY TAX
- ☐ CHOOSING A NAME
- ☐ FICTITIOUS BUSINESS NAME STATEMENT – file with Recorder County Clerk
- ☐ ZONING AND PLANNING REQUIREMENTS
- ☐ SHERIFF'S DEPARTMENT, LICENSING DIVISION
- ☐ REAL PROPERTY TAX – buying the business property, County Assessor taxes
- ☐ BUSINESS PROPERTY TAX – on equipment, tools, computers, etc.
- ☐ AIR POLLUTION CONTROL DISTRICT
- ☐ AGRICULTURAL WEIGHTS AND MEASURES

STATE REQUIREMENTS

- ☐ STATE INCOME TAX
- ☐ STATE EMPLOYMENT TAX
- ☐ SELLER'S PERMIT, BOARD OF EQUALIZATION – apply, make tax deposit
- ☐ SALES & USE TAX, BOARD OF EQUALIZATION – collect taxes, file returns
- ☐ RESALE CERTIFICATE, BOARD OF EQUALIZATION – selling for resale means no tax
- ☐ ALCOHOL BEVERAGE CONTROL
- ☐ DEPARTMENT OF CONSUMER AFFAIRS
- ☐ CAL/OSHA, HEALTH AND SAFETY REGULATIONS
- ☐ STATE LICENSE TO CONDUCT BUSINESS
- ☐ SECRETARY/STATE – limited partnership, articles of organization/incorporation

THE BASICS

FEDERAL REQUIREMENTS

- ☐ FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN FORM SS-4)
- ☐ FEDERAL INCOME TAXES – self-employment, partnership, corporate tax filings
- ☐ FEDERAL BUREAU OF ALCOHOL, TOBACCO & FIREARMS
- ☐ FEDERAL LICENSE TO CONDUCT BUSINESS
- ☐ FEDERAL EXCISE TAXES (IRS)
- ☐ PRODUCT LABELING – FEDERAL TRADE COMMISSION
- ☐ FEDERAL HEALTH AND SAFETY REGULATIONS (OSHA)
- ☐ BUYING REAL PROPERTY IRS, SELLER A NONRESIDENT OF U.S., PROPERTY TAXED
- ☐ AMERICAN DISABILITIES ACT COMPLY WITH PUBLIC ACCOMMODATION PROVISIONS

HIRING RESPONSIBILITIES

- ☐ STATE OF CALIFORNIA EMPLOYER ID NUMBER
- ☐ STATE OF CALIFORNIA UNEMPLOYMENT TAXES
- ☐ WORKER'S COMPENSATION INSURANCE
- ☐ FEDERAL EMPLOYMENT TAXES, MUST HAVE (FEIN)
- ☐ FEDERAL UNEMPLOYMENT TAX (FUTA)
- ☐ EMPLOYMENT ELIGIBILITY, IMMIGRATION (INS)
- ☐ ANTI-DISCRIMINATION POLICIES

MOST BUSINESSES OPERATING IN SAN DIEGO COUNTY will be contacting city, county, state and federal agencies for information and assistance with government regulations that pertain to their specific type of business. A good place to start is with your city or unincorporated area requirements, although meeting a variety of state and federal requirements in a timely manner may be needed before proceeding with specific local requirements. For example, information such as your Federal Employer ID Number (FEIN) and your State Board of Equalization Seller's Permit Number will most likely be required on local business tax applications.

Local chambers of commerce and city/county economic development departments will be the best place for details on the procedures and agencies involved in starting a business within each municipality. To assist you even further with the complexities of the start-up phase, you may consider buying a local business start-up kit from a chamber of commerce.

The business start-up kit includes a wide variety of required applications and booklets that specialize in the local San Diego area. Obtaining a package with the necessary documents will save you countless hours of time, energy, and frustration.

Each of the eighteen cities within San Diego County and the unincorporated portion of the county have specific agencies that create and enforce local requirements. Local phone numbers and addresses of these agencies are detailed in *The San Diego County Resource Guide* for each of these areas.

Local requirements and assistance with the County Permit Process can be relayed through the County of San Diego, Office of Trade and Business Development.

Businesses operating in more than one city, or across county lines will most likely be required to have a license for each jurisdiction. Each city agency will require different procedures for start-up businesses, but most will follow basic guidelines for adhering to local requirements. Most cities and the county have common basic requirements such as: Business Tax or License; Planning and Zoning Permits; Building Inspections; Sign Permits; Local Fire Codes; Police Regulated Businesses, and other special permits.

LOCAL BUSINESS LICENSE & TAX

City regulators require anyone who conducts business within a city to obtain a business license and pay a business tax each year. The exact criteria will usually depend on the number of employees, the type of business and other specific local regulations. In most cases you will apply for the business license, get approved for zoning, have your building and sign plans inspected and approved, and then pay for your business tax. Businesses in the unincorporated areas of the county do not require a business license.

SIGN PERMITS

Obtain a sign permit before you modify or install *any* signs that are visible from a public street. Generally, the size and location of signs are determined by the zoning restrictions of the property, and the width and speed limit of the street serving the property. Be aware that many older existing signs may no longer be in conformance with sign regulations. Contact your local zoning department for requirements on size, location and installation of proposed signs, as well as requirements for drawing up your sign's plans. Keep in mind that you may also need a building permit to remodel or construct a sign, and in most cases you cannot have any business signs for home-based businesses.

SPECIAL PERMITS

Depending on the type of business operated, other permits may be required. Zoning services can give you assistance on identifying requirements that may be unique to your business, such as cabaret, liquor license, encroachment permits for sidewalk cafes and push carts, conditional use permits, etc.

County of San
Diego Office of
Trade & Business
Development
5201 Ruffin
Road, Suite N
San Diego, CA
92123-1600
858-495-5494
or
Toll Free
866-402-6044

POLICE REGULATED BUSINESSES

Many businesses are regulated by the local law enforcement agency. The local economic development department will have listings of police regulated businesses. Contact the local police or sheriff's department for specific requirements and permits.

FIRE CODES AND INSPECTIONS

The business owner is responsible for adhering to all local fire codes and regulations. Contact the fire department in your district for general information on requirements.

BUSINESS TAX & LICENSE

If you plan to do business within a city limit, you are required to obtain a *Business Tax Certificate* or a business license. This includes home-based businesses. The first step is to complete the appropriate application by mail or in person.

Choose the application that corresponds to the legal structure of your business: Sole Proprietorship, Partnership, or Corporation. A listing of Principal Business Activity Codes (PBAC) is available to help you choose the business category which best represents your business type.

Your *Business Tax Certificate* or business license is not released if your Federal Employer ID Number (FEIN), or Social Security Number, and your State Board of Equalization Number are not provided. These numbers should be obtained early on in the application and permit process and will be discussed later.

ZONING REQUIREMENTS

After completing the application, a staff member will total your fee and send you to verify that your business conforms to zoning requirements. Before signing any lease or contract, it is important to determine the zoning designation of your proposed site to assure that it complies with your intended use.

Cities evaluate the proposed business on a number of factors, including: the proposed sale of alcoholic beverages; the business' environmental impact; its conformance to area zoning regulations; and the suitability of the type of business to the neighborhood.

After your application is approved you may pay the fee. This fee varies depending on business location, number of employees, and if your business is located in a Business Improvement District (BID), you may be subject to additional fees.

Owners of a business are not considered employees. However, paid officers of a corporation are considered employees. New businesses may estimate the number of employees, but may be subject to verification. Existing businesses must use the number of persons appearing on the payroll immediately prior to the license expiration date. The certificate will need to be renewed annually, and is not transferable if the business is sold. Any business operating without a certificate will be charged a late fee.

BUSINESS ADDRESS/LOCATION

Zoning approval is determined only for the location listed on a business license or business certificate application. You must obtain approval for any additional business location. Notify in writing of any changes such as a change of your business location.

Business and residence addresses must include street number, full street name, suite number, city, state, and zip code. P.O. Box numbers will not be accepted for the business location or residence address, but may be used for mailing purposes.

BUILDING CONSTRUCTION – PERMITS

After obtaining approval for your location's use, any new construction or remodeling may need to be approved and inspected before operations begin. Building permit fees are based on an estimated valuation of new construction and improvements.

General information packets may be obtained at building departments located within the cities or county. Also inquire about complying with additional local regulations, such as land use, parking, landscaping, signs, water and sewer, driveways, encroachment, electrical, plumbing, and fire permits. Request the cost, time, and likelihood that these will be approved.

SIGNS – INFORMATION AND REQUIREMENTS

Before you install a new sign, modify an old sign, or hire a sign company to do the job for you, contact the local planning and zoning department for information on the zoning of the property, the size, location and installation of the signs. Be aware that you may be required to remove an existing sign to comply with new regulations.

Ask for an application and instructions on submitting your sign plans. After submittal requirements are completed, make an appointment to submit your plans. If no corrections are necessary on your submitted plans, it will take an average of three weeks to receive a sign permit.

Fees charged will generally be between \$120 and \$200. However this does vary. Contact your local planning and zoning department.

BUSINESS IMPROVEMENT DISTRICTS (BIDs)

Additional municipality fees may be incurred if your business is located within a Business Improvement District (BID). These are commercial, geographical areas in which businesses have agreed to pay additional charges on their Business Tax Certificates for the purpose of promoting economic activity in that area.

A list of BIDs is included in the *San Diego County Resource Guide*.

POLICE REGULATED BUSINESSES

Certain businesses require law enforcement regulation. These include, but are not limited to: arcades, auto dismantling, holistic health practitioners, pawn shops, used merchandise, adult entertainment, massage, alarm companies, gambling, firearms, cocktail lounges, ice cream vendors, swap meets, and theaters.

All persons working as interviewers, solicitors, peddlers, canvassers or vendors of merchandise, service, magazine, etc., are required to obtain a *Police Registration Card*, and *Business Tax Certificate*.

FIRE CODES AND INSPECTIONS

Business owners are responsible for adhering to all local fire codes and regulations. Commercial buildings will be inspected periodically by the local or state fire department. A counseling service, offered by some of the local Fire Marshal's for approximately \$125, may help you determine fire code requirements for potential business sites. Certain businesses operating with hazardous materials will pay annual fees for inspections. For information regarding codes and inspections contact your local fire department.

WATER AND SEWER REQUIREMENTS AND FEES

Any additions of fixtures or service, in regards to water or sewer, must be reviewed and approved by the local water and sewer district.

BUSINESS DEVELOPMENT ASSISTANCE

Help is available with small business activities, technical and financial assistance, and related business retention incentives, by contacting the County's Office of Trade and Business Development at 5201 Ruffin Road, Suite, N, San Diego, CA 92123, 858-495-5494 or Toll Free 866-402-6044.

COUNTY & REGIONAL

San Diego County and other regional agencies regulate a variety of environmental health standards, unincorporated area business licenses, Sheriff regulated businesses in unincorporated areas, business and real property taxes, and Fictitious Business Name filings. If you have questions regarding county requirements, contact the Office of Trade and Business Development.

CHOOSING A NAME

A business name should project an attractive and accurate image of the products you offer. It should give the public a clear idea of what it is your business provides. If you plan on protecting your name through trademark or service mark laws you must follow certain guidelines to insure the name is protected under such laws.

There are also consequences to putting your name before the public. Risks include people associating you to a failed venture, and also a backlash of negative credit reports with your name being front-and-center.

FICTITIOUS BUSINESS NAME STATEMENT (FBNS)

If you conduct business under a name other than your legal name, state law requires you to file a *Fictitious Business Name Statement* (FBNS) with any of the Recorder/County Clerks offices. If you use your name, and the business name does not suggest the existence of additional owners, you do not have to file. The filing fee is approximately \$17 for the first business name, and \$3 for each additional business name, and additional owner names in excess of one owner.

Check the County Recorder's computer to insure your new business name is not in conflict with an existing business. If it is available, complete the *Fictitious Business Name Statement* form to assure it will be legally yours once it is approved. Within 30 days after filing your statement, you must have the new name published once a week for four successive weeks in a newspaper of general circulation in San Diego County.

A practical reason to register or file your FBNS is that most banks will not let you open a business account until you show them proof of filing. Four carbon copies will be available, each of the following gets one: the business owner, the bank, the newspaper, and one for the County's records.

The FBNS filing is valid for five years, unless the business address, or ownership changes. Be sure to file another FBNS with the County before it expires.

DEPARTMENT OF ENVIRONMENTAL HEALTH

Any business engaged in, but not limited to: selling or handling food products for human consumption; operating a swimming pool or spa; handling hazardous materials or waste products; underground storage tanks; medical wastes; x-ray equipment; water wells; septic systems; or solid waste handling and composting is subject to licensing and inspection by the Department of Environmental Health (DEH).

A handout detailing the procedure for opening a food establishment, "*San Diego County, Plan Submittal and Construction For Opening a New Food Establishment*," is available from the County DEH.

DEH will need detailed plans, drawn in a professional manner, encompassing all applicable requirements listed in the back of their construction guide. Basic requirements include: the exact type of foods that will be sold, equipment used, construction materials used, plumbing, electrical and ventilation plans. These plans must be approved before constructing, enlarging, altering, converting, or remodeling any building for use as a food facility.

**County of San Diego
Recorder/
Assessor/
County Clerks
Downtown**
1600 Pacific
Hwy, Suite 260
San Diego, CA
92101
619-237-0502

**Recorder/
Assessor
Clerks**
www.sdarcc.com

**North County of
San Diego**
334 Via Vera
Cruz, Suite 150
San Marcos, CA
92069
760-940-6868

**East County of
San Diego**
200 East Main
Street, 6th Floor
El Cajon, CA
92020
619-441-4030

South County
590 Third Avenue
Chula Vista, CA
91910
619-498-2200

Central County
5473 Kearny Villa
Road, 3rd Floor
San Diego, CA
92123
858-505-6262

**Department of
Environmental
Health**
1255 Imperial
Ave., 3rd Floor
San Diego, CA
92101
619-338-2222

North County

338 Via Vera
Cruz, Room 201
San Marcos, CA
92069
760-471-0730

Approval from other agencies may be needed before your plans are reviewed, so do your homework before you submit your plans. You will be submitting three sets of detailed plans with the model construction plan. Fees are based on the square footage of the establishment. For a smaller food establishment, the fees will approximate \$600 – \$1,000.

East County

200 East Main
St.
El Cajon, CA
92020
619-441-4030

Once your plans are approved by DEH they must be submitted to the city/county building inspection department for required permits before construction is started.

Turn in the application and pay the fee when instructed by the Department of Environmental Health. Once a business is in operation, an annual health permit fee will be based on the number of employees, and will usually be substantially lower than the original one time fee. The establishment may not open until a field specialist grants final approval.

Business operations that emit any contaminants, including but not limited to: dry cleaners, chemical manufacturers or processors, rock, mineral and asphalt plants, gasoline dispensers, and stationary engines will be regulated.

AGRICULTURE, WEIGHTS & MEASURES PERMITS (AW&M)**Nursery Stock License**

If your business involves the sale of any plant material (including potted or bare root plants, cut flowers, bulbs, or sod), state law requires you to obtain a *License to Sell Nursery Stock* from the California Department of Food and Agriculture (CDFA). Some exemptions exist for business selling specific items (e.g., retail florists selling potted indoor decorative plants or businesses selling plant seeds only). The annual license fee is \$100 plus an additional acreage fee prorated upon the amount of acreage your business has for production of qualifying plant material. Application forms and guidance in complying with the state laws are available from the local Department of Agriculture, Weights, and Measures.

AW&M

5555 Overland
Avenue, Bldg. 3
San Diego, CA
92123-1295
858-694-2739
www.sdcawm.org

Certification of Export Shipments of Plant Material

Most foreign countries, states and even many other California counties require shipments of plant material to be certified as free of a variety of plant pests (including insects, weeds and plant diseases) as a condition of entry. If your business involves the shipment of plant material (including potted or bare root plants, cut flowers, bulbs, seeds, unprocessed wood, fruits and vegetables) to one of these geographic areas, you may need to obtain a Phytosanitary Certificate (PC) or Certificate of Quarantine Compliance (CQC) from the local Department of Agriculture, Weights and Measures prior to shipping your plant material. The cost for inspecting the plant material and issuing the certificate is \$30. Call 760-752-4700 for additional information.

If you ship within California, call 858-694-2747 for information regarding regulations for Pierce's Disease.

Quarantine Inspection of Import Shipments of Plant Material

State law requires all shipments of plant material entering the state to be held for inspection as a precaution against the introduction and spread of potentially destructive agricultural pests. If your business involves the receipt of plant material (including potted or bare root plants, cut flowers, bulbs, and seeds) from outside of the state, you may need to have that material inspected and released by the local Department of Agriculture, Weights and Measures prior to selling or moving that material from the receiving location. Additional information can be obtained by calling 760-752-4700.

North County

1645 Capalina
Road, Suite 600
San Marcos, CA
92069
760-752-4700

Weights and Measures

Point-of-sale permits are required for all businesses utilizing electronically stored pricing. Device registrations are required for all businesses utilizing weighing or measuring devices to conduct a transaction. Owners of apartments or marinas who utilize their own water, gas, or electric meters to charge tenants for utility usage, are also required to register these commercially used devices. Fees for the Point of Sale Permit and the weighing or measuring device registration are determined by the number of point of sale stations or by the number of weighing or measuring devices at a single location. Permits are to be renewed annually. Permits and registrations are non-transferable from one person to another or from one location to another.

Stormwater

The Department's Irrigation and Stormwater Management Program fosters compliance with the County Stormwater Ordinance at agricultural type enterprises. These type businesses include: nurseries and greenhouses, golf courses, cemeteries, landscape sites and pest control business activities. This program also provides referrals to resource agencies that facilitate the implementation of compliance strategies. Additional information is available at the department's website: www.sdcawm.org

Pesticide Regulatory Program

An Operator Identification Number must be obtained prior to the purchase or application of a pesticide for production of an agricultural commodity. Pesticides designated as Restricted Materials or Restricted Use Pesticides require a Restricted Materials Permit.

Licensed Pest Control Advisors, Licensed Agricultural Pest Control Businesses, Structural Pest Control Businesses and pilots who apply pesticides for hire must register with the County Agricultural Commissioner prior to engaging in these activities. General Information is available at 858-644-8980.

AIR POLLUTION CONTROL PERMITS (APCD)

Air pollution permits are required of any businesses operating equipment that is capable of emitting air contaminants unless the equipment is specifically exempted by district rules. Permits are required prior to construction or installation of equipment and before operation begins.

Note: This department serves all businesses in San Diego County including those in all 18 cities.

Examples of operations requiring APCD Permits: Chemical Manufacturing or Processes; Printing, Painting and other coating processes; Boilers, Heaters and Incinerators; Stationary Combustion Engines; Electronic Component Manufacturing; Food Processing and Storage; Metal Refining, Chrome and Nickel Plating; Gasoline Dispensing and Storage; Rock, Mineral and Asphalt Plants; Solvent Cleaning Processes; Dry Cleaning.

APCD
9150
Chesapeake Dr.
San Diego, CA
92123-1096
858-650-4549
or
858-650-4700

Permit fees are based on the type of business and the amount of emissions. The Air Pollution Control District also regulate toxic air emissions and asbestos removal.

PROPERTY TAXES

A Business Personal Property Tax is paid once a year on all tangible personal property (except inventory), including office furniture, supplies, certain leasehold improvements, equipment, and tools. Businesses owning taxable personal property of \$30,000 or more are required to file a signed property statement each year with the County Assessor, whether or not a request to do so is received. For more information, contact the County Recorder/Clerk.

A Real Property Tax on land and buildings is also paid to the County Assessor in two annual installments. If you own the building that your business is located in, the cost of property taxes must be considered. The County provides a public information center to assist taxpayers with

questions about their property. Contact a branch office of the County Assessor/Recorder/Clerk in your area.

For Construction Reappraisals information, contact 858-505-6262.

WATER CONNECTION AND SERVICES

If you are unaware who your local water service provider is, contact the County Assessor.

The County of San Diego has numerous water and sewer agencies. Additions of fixtures or service must have water and sewer approval.

OTHER PERMIT ASSISTANCE

Many county, cities, and local economic development corporations also have: One-Stop Early Permit Assistance. The One-Stop Early Assistance Program can help you simplify permitting. Contact the County Office of Trade and Business Development for information.

SAN DIEGO PORT DISTRICT

The Port administers state-owned tidelands around San Diego Bay. Specific requirements must be met before proposed projects obtain approval.

UNINCORPORATED AREAS

**Office of Trade
and Business
Development**
5201 Ruffin
Road, Suite N
San Diego, CA
92123-1600
858-495-5494
or
Toll Free
866-402-6044
[www.sdbusiness
assistance.org](http://www.sdbusiness
assistance.org)

An unincorporated area of San Diego County is any area that is not within a specific city limit. If your business is located outside city limits then most local requirements will be regulated through County agencies.

BUSINESS TAX CERTIFICATE FOR UNINCORPORATED AREAS

Businesses located outside an incorporated city are not required to obtain a Business Certificate Tax. Businesses located within city limits and doing business in an unincorporated area are also not required to obtain a Business Certificate Tax. Businesses located, or doing business, within an incorporated city limit must obtain a business license from that city.

Businesses requiring specialized business permits will still be required to obtain approval and renewal for such permits by the administering agency.

ZONING CHECK

If you are considering starting or expanding a business in the County's unincorporated area you should check with the Department of Planning and Land Use (DPLU) before: signing a lease or rental agreement; starting a new business; remodeling an existing building; or constructing a new building.

This will help determine whether your business is compatible with the zoning for the area and whether any discretionary permits are required. Many zones have restricted uses. Planning staff will assist you in determining whether the proposed use is consistent with the zoning for your parcel.

To check the zoning, you will need the Assessor's Parcel Number (APN) of the property. If you are the property owner, this number can be obtained from your property tax statement. If you are a renter or lessee, your landlord will have the number. If this number is not readily available, you can obtain this information from the County Assessor's Office by calling 619-236-3771.

You will need to provide the Assessor with the exact address of the property, the owner's name or the legal description of the property. Once you have obtained the APN, contact DPLU to check the zoning.

If you need a discretionary use permit, DPLU staff will assist you in determining exactly what kind of permit you need, how long it will take to process and what fees are involved. You are encouraged to have a pre-application meeting with DPLU staff to determine the feasibility of your project.

Depending on the type and complexity of the application, the planning process for review and approval or denial can take anywhere from a few weeks to several months or more. The process may involve environmental review in order to comply with the California Environmental Quality Act (CEQA). Public hearing may be required.

COMMERCIAL BUILDING PERMITS PLAN REVIEW PERMIT ISSUANCE

A Building Permit is required when you plan to make physical or cosmetic changes to the interior or exterior of the facility you plan to occupy or if you are constructing a new building.

Permits must also be obtained for any electrical, plumbing or mechanical work you plan to do.

When a permit is required, plans should be submitted to the building counter for Plan Review and a Building Permit issued before starting any construction or remodeling. During the course of construction or remodeling, building inspectors are required to inspect the work performed.

The permit fee is based on the value of the work to be performed, including the mechanical, plumbing, and electrical work. A plan check fee is collected when the plans are submitted for Plan Review. For more information, contact the Department of Planning and Land Use.

SIGN PERMIT

If you are planning to place a sign on the exterior of your business, you need a Sign Permit. Regulations regarding the types of signs and their placement depend on the zoning for the parcel and the type of business. This includes special promotional banners or announcements.

The Sign Permit application requires you (the business owner), or your sign contractor to submit drawings indicating the advertising message, location, dimensions, construction, electrical wiring and components and method of attachment.

The fees associated with Sign Permits vary with the size and type of sign and whether it is illuminated or not. Contact the Department of Planning and Land Use for more details.

EXCAVATION PERMITS, STRUCTURE PERMITS, DEMOLITION PERMITS, CAL/OSHA

The Division requires any employer who provides employment or a place of employment, which by its nature involves a substantial risk of injury, to obtain a permit prior to the initiation of any work, practice, method, operation or process of employment. Such employment shall be limited to: 1. Construction of trenches or excavations which are five feet (5') or deeper and into which a person is required to descend; 2. The construction of any building, structure, scaffolding of false work more than three stories high or the equivalent height (36 feet). This also includes tower cranes. (Additional trades that typically require a permit include: structural steel erection, decking, framing, roofing, glazing, installation of pre-cast panels or facie, and positioning of brick or stone work.); 3. The demolition of any building, structure, or the dismantling of scaffolding or false work more than three stories high or the equivalent; 4. The underground use of diesel engines for work in mines and tunnels. The Division also requires that the building owner certify in writing that, upon completion of the building or structure, they shall comply with the applicable requirements of 8 CCR Section 3281 through 3299 and shall provide the Division with the Surface Building Maintenance Certification Form.

**Department of
Planning &
Land Use
(DPLU)**
5201 Ruffin Rd,
Suite B
San Diego, CA
92123
858-565-5981

**DPLU Building
Division**
5201 Ruffin Rd,
Suite B
San Diego, CA
92123
858-565-5920

**Division of
Occupational
Safety and
Health**
7575
Metropolitan Dr.
Suite 204
San Diego, CA
92108
619-767-2060

**Office of
Disaster
Preparedness**
5555 Overland
Ave., Bldg. 19
San Diego, CA
92123
858-565-3490

FIRE DISTRICT REQUIREMENTS, SAFETY INSPECTIONS

Your local fire department issues a Fire Inspection Permit for various types of businesses. The permit provides a clearance to operate a business that uses special processes and materials such as automotive garages and repair shops, hospitals, day care centers and hotels.

To determine whether you need a permit(s), call your local Fire Department. If your business is located in one of the 18 cities in San Diego County, contact your city's fire department.

If you don't know which fire district your business is located in, ask your landlord or property management agent, or call either the fire district nearest you or the County Fire Services Coordinator. They will assist you in determining your district. When a proposed commercial, residential, or industrial building or addition is submitted, the applicant is referred by the Department of Planning and Land Use, Building Division to the appropriate fire protection agency. Fire protection agency approval is required prior to the issuance of a building permit. At certain intervals during construction, the fire protection agency will also inspect the proposed structure. Their approval is required prior to occupying the structure.

WATER AND SEWER REQUIREMENTS

**DPLU Building
Division**
5201 Ruffin
Road, Suite B
San Diego, CA
92123
858-565-5920

The County of San Diego has numerous water and sewer agencies throughout the county. Additions of fixtures or services must have water and/or sewer district approval. To determine the district you are located in, please obtain the Tax Assessor's parcel number and contact the County Assessor or the Building Division of the Department of Planning and Land Use. When you apply for permits, you will receive a form that must be taken to the appropriate sewer and water district. The district will collect the appropriate fees and sign and return the form to you. The forms then need to be returned to the Building Division prior to permit approval.

**Office of Trade
and Business
Development**
5201 Ruffin
Road, Suite N
San Diego, CA
92123-1600
858-495-5494
or
Toll Free
866-402-6044

BUSINESS DEVELOPMENT ASSISTANCE

Help is available for the business community through the County's Office of Trade and Business Development. This office is a valuable resource to guide you through the permit process and act as your facilitator and ombudsperson. Services available include Early Assistance program, Site Search assistance, permit expediting process, and ombuds service.

POLICE REGULATED BUSINESS

These licenses and permits are usually for business services regulated by County ordinance and require investigation and/or review by the County Sheriff's Department. Categories include, but are not limited to: adult entertainment, carnivals, explosives, fortune telling, and taxicabs.

In some instances, businesses require special licenses or permits. Businesses are required to go through their own cities for licenses and permits. (The only exception is an explosives license.)

Businesses requiring special licenses and/or permits:

Adult Entertainment Establishment
Amusement Establishment and Devices
Amusement/Go-Cart Centers
Bathhouses

Sheriff
9621
Ridgehaven Ct.
San Diego, CA
92142-9000
858-974-2020

Businesses requiring special licenses and/or permits (continued):

Bingo
Carnivals
Casino Parties
Charitable Solicitations
Coupon Books, Distribution of
Dances and Dance Halls, Adult
Dances, Teenage
Entertainment Establishments
Explosives
Firearms, Sale of
Fireworks
Fortune Telling
Junk, Automotive Wrecking
Non-Operating Vehicle Storage Yards
Massage Establishment
Massage Technician
Massage Technician Trainee
Off-Premises Massage
Outdoor Assemblages
Second-Hand Dealers
Security Alarm Systems
Shooting Ranges
Solicitors (license and identification card)
Swap Meets and Swap Lots
Taxicab Companies
Taxicab Driver (Operator's License and Driver's Identification Card)

Some special license activities listed may require Discretionary Use Permits or have zoning restrictions. Call the County Department of Planning and Land Use at 858-565-5981 for more information.

Some special license activities may require proof of insurance or a bond.

STATE REQUIREMENTS

California Franchise Tax Board

7575 Metropolitan Dr, Suite 201
San Diego, CA 92108
800-852-5711
www.ftb.ca.gov

Recorded Information & Forms

800-338-0505

Board of Equalization

1350 Front St, Room 5047
San Diego, CA 92101
619-525-4526
800-400-7115
www.boe.ca.gov

WITH STATE TAXES, ONE OF THE BIGGEST SURPRISES TO NEW entrepreneurs is that, as a business owner, you are required to estimate how much money you expect to make before you make it. Then several times each year, you must file returns and pay taxes on the amount you have estimated.

The California Franchise Tax Board (FTB) administers California's Personal Income Tax (PIT) and Corporation Tax Laws, relating to income earned from business operations. Anyone doing business in the State of California is required to submit an annual *Business Income Tax Statement* to the Franchise Tax Board. Employment taxes will be covered in the *Hiring Employees* section.

Local business start-up kits may include basic information and forms needed to pay the State of California personal, business and corporate income taxes or contact the California Franchise Tax Board. The California Franchise Tax Board publications and procedures will mirror those of the U.S. Internal Revenue Service whenever possible. Application and tax return form numbers are similar or in some cases identical to IRS form numbers, but you may not use federal forms for the California program.

California residents are taxed on their income from all sources, while nonresidents are taxed on income derived from California sources. The California tax form will begin with the federal adjusted income and then provide for adjustments between federal and state tax laws. After hiring employees, the California EDD will regulate the Personal Income Tax withholdings of employees, while the California FTB regulates the employer's income.

California corporations are subject to an annual state franchise tax. The tax is imposed in advance for the privilege of exercising the corporate franchise. The Franchise Tax Board sends its *Guide for Corporations Commencing Business in California* (FTB-1060) to new corporations upon request. Review the Legal Structure section for more details.

ELECTRONIC FILING PROGRAM (ELF)

If you are interested in filing California's Personal Income Taxes electronically, contact an IRS office and the FTB Electronic Filing (ELF) Help Desk for an application to participate. Upon receipt of your application, the IRS will assign you an appropriate electronic filing identification number, so you may apply to participate in FTB's ELF program. There are basic requirements to participate, but the advantages of faster refunds, greater accuracy, less paper and mailings, and more efficient customer service through the Help Desk make it worth the time.

STATE SALES TAXES & SELLER'S PERMIT

Generally, if you sell taxable merchandise or provide a taxable service within California, you must obtain a *Seller's Permit*. The State Board of Equalization issues Seller's Permits, collects sales, use, excise, and hazardous waste taxes.

Local start-up business kits include *Your California Seller's Permit Handbook*, or contact the nearest Board of Equalization office for a copy.

The seller's permit handbook will include information you need to obtain a permit as well as a brief description of your rights and responsibilities as a seller. Temporary permits are also available, normally lasting no longer than 30 days, for sales of a temporary nature.

You may request an application and complete the registration entirely by mail, or if you prefer, you may visit a local office. Information specific to your industry that you will be asked to furnish will include, but is not limited to, a photocopy of your driver's license and social security card or another document with your Social Security Number printed on it, bank information, property ownership information, suppliers and accountants name, personal references, estimated monthly operating expenses for business, and estimated monthly sales projections. Only the information on your seller's permit, and the closeout date of your business, if applicable, are subject to public disclosure.

As a retailer or wholesaler, you have a responsibility to pay sales and use taxes, and file accompanying tax returns. Some service and labor costs are taxable if they result in the creation of tangible personal property. However, labor costs for making most repairs are not taxable since they do not result in the creation of tangible personal property. Likewise, labor charges to install or apply property, which has been sold, is not ordinarily subject to sales tax. It is important to state the labor charge separately on the bill.

North County Office
334 Via Vera Cruz, Suite 107
San Marcos, CA 92069-2694
760-510-5850

Wholesalers, as well as retailers, are usually required to obtain a separate permit for each place of business.

There is no fee charged for a seller's permit. However, the Board may require a security deposit to cover any unpaid taxes that may be owed if at a later date the business closes. The amount of the security deposit will be determined at the time you apply, and will be dependent on the estimated amount of sales and the related tax liability.

Whenever you buy, sell, or discontinue a business, you will need to contact the Board to protect yourself from tax liability. It is very important to receive a *Certificate of Tax Clearance* or adjust the purchase price by the amount due if you intend to buy an existing business. Just as important, you must close out your account and cancel and return your seller's permit if you discontinue business. The entire deposit or any unused portion will be returned to you, but more importantly, you will avoid any further tax liability from future owners.

Anyone included on the Seller's Permit, such as business partners or spousal partners, will remain liable for taxes, interest, and penalties incurred by the business until the Board is notified in writing.

If you are unable to resolve a disagreement with the Board, or have any legal questions regarding your rights under Sales and Use Tax Law, contact Taxpayer's Rights Advocate at the State Board of Equalization.

STATE USE TAX

In some instances, retailers must pay a *California Use Tax* rather than sales tax. The most common example of a purchase subject to the use tax is a purchase of an item for use in California from an out-of-state retailer. Out-of-state retailers who are engaged in business in California are required to collect the use tax, whenever applicable, from the consumer at the time of sale. The tax rate for the sales and use tax is the same. There are a few sales and purchases exempt from sales and use tax. Contact the California State Board of Equalization for information on exclusions of such taxes.

Taxpayer's Rights Advocate State Board of Equalization
450 N Street, MIC:70
P.O. Box 942879
Sacramento, CA 94279-0070
916-324-2300

REPORTING SALES AND USE TAXES

If you make sales only within the county that your business is located, and claim few tax exemptions or adjustments, you may qualify to file the simplified *EZ Sales and Use Tax Return*.

For more complex filings, a *State, Local & District Sales & Use Tax Return, Form BT-401* is used to report the amount of sales and use taxes paid to the Board of Equalization.

When you obtain your seller's permit, you will be instructed to file your tax return on a monthly, quarterly, or annual basis (based on the expected sales volume). You must file a tax return even if no taxes are owed for the reporting period.

The board will send you a tax return form at the close of each reporting period. However, you should contact the Board directly if you haven't received it within 15 days, so you may file by the due date. Late payments are subject to interest and penalty charges if they are not postmarked or hand delivered to a Board office on or before the specified date.

ELECTRONIC FUNDS TRANSFER (EFT)

Electronic Funds Transfer payments are currently required for businesses that pay an average of \$20,000 per month in sales and use taxes. If you are registered to pay electronically, you must still file a hard copy of your return on a timely basis. Other businesses are welcome to make EFT payments on a voluntary basis.

BASIC STEPS TO COMPLETING A TAX RETURN

First, you must report total sales for the reporting period, and the total purchases that are subject to use tax. Then subtract all exemptions to which you are entitled from the above total of sales and purchases. Finally, using the result from step three, you will calculate the state, county, local, and special district taxes that must be paid to the board.

STATE RESALE CERTIFICATE

The State Board of Equalization also requires a *Resale Certificate* for businesses involved in the purchase of tangible personal property for the intention of resale so they may avoid sales and use tax. If you purchase such property, the transaction is not subject to sales or use tax provided the sale is properly documented. Suppliers are required to ask you to provide a Resale Certificate as proof that the property was purchased for resale.

As a seller, you may also accept resale certificates from other sellers who wish to purchase tangible personal property from you, for the intention of resale. The certificate may be in any form, such as a note, letter, or memorandum. However, for the certificate to be legal, it must contain specific information required. The Board will not furnish resale certificate forms, however, certificates are usually available in local business start-up kits or may be purchased in office supply and stationary stores.

There are detailed legal responsibilities when using or accepting a resale certificate. As a seller, you must be aware of and question the use of the certificate if it looks unusual. You should not accept the certificate if you have reason to believe the items are not for resale, because you are required to retain the resale certificates from others to substantiate claims that a sale was for resale and therefore not subject to tax.

State Board
of
Equalization
Excise Taxes
Division
800-400-7115

OTHER TAXES AND FEES

The Board administers several taxes and fees in addition to the state's sales and use taxes. For a list of additional taxes, request the *Guide to Board of Equalization Services* handbook. The following list is a brief review of other common taxes and who pays.

STATE SPECIAL TAXES PROGRAM REGISTRATION

Excise Taxes Division

Alcoholic Beverage Tax – wholesalers, manufacturers, and importers of alcoholic beverages.

Tobacco Products Tax – wholesalers and distributors of tobacco products.

Tire Recycling Fee – retail sellers of new tires.

Oil Recycling Fee - retail sellers of oil or automotive repair establishments.

Fuel Taxes
Division

916-324-2300

Fuel Taxes Division

Underground Storage Tank Maintenance Fee – petroleum product storage tanks.

Use Fuel Tax – owners and operators of vehicles powered by alternative fuels.

Environmental Fees Division

Activity and Tiered Permit Fees – hazardous waste, variances and waste classifications.

Environmental Fee – Corporations with 50 plus employees, with exceptions.

Facility Fee – Facilities that store, treat, or dispose of hazardous substance.

Generator Fee and Waste Reporting Surcharge – firms that generate hazardous waste.

Occupational Lead Poisoning Prevention – Employers with potential lead poisoning substances.

STATE EMPLOYER IDENTIFICATION NUMBER

If you have already applied for a seller's permit on *Form BT-400* with the State Board of Equalization, and you indicated on the application that you will pay wages to an employee, the EDD will use that application to assign a state employer identification number. To ensure that all procedures are followed, contact the EDD for a copy of the California Employer's Guide before you hire any employee.

STATE SAFETY & HEALTH REQUIREMENTS

The Department of Industrial Relations enforces labor and industrial safety laws in California. Business owners should contact California Occupational Safety and Health (CAL/OSHA) to be certain the company is conforming to state safety and health requirements.

STATE ALCOHOL BEVERAGE CONTROL

Businesses involved in the sale of alcoholic beverages must obtain permits from Alcohol Beverage Control (ABC).

STATE TRADEMARKS & SERVICE MARKS

The California Secretary of State administers the registration of Trademarks and Service Marks. A Trademark or Service Mark is any work, name, symbol, or device used to identify goods or services sold to distinguish them from the products of others. While trade names are defined in the Trademark Law, California statute does not provide for the filing of fictitious business names at the state level. Contact the nearest office for an application, and mail the approximate fee of \$70.

OTHER STATE REQUIREMENTS AND LICENSING

The State of California imposes license fees on a wide range of businesses, occupations, and professions. The license and fees are granted based on a combination of requirements such as registration, bonding, education, experience, and test results. While a number of businesses and occupations are regulated by other state agencies, most licenses are granted by divisions of the California Department of Consumer Affairs.

Many occupations not regulated by the Department of Consumer Affairs are governed by independent agencies. For example, real estate, banking, savings and loan associations, and insurance firms are regulated by separate agencies. Contact the nearest governing board of your specific business or profession.

For more detailed information on licensing fees contact the County's Office of Trade and Business Development at:

Office of Trade & Business Development
5201 Ruffin Road, Suite N
San Diego, CA 92123-1600
858-495-5494 or Toll Free 866-402-6044
www.sdbusinessassistance.org

Environmental Fees Division

MIC:57

State Board of

Equalization

P.O. Box

942879

Sacramento,

CA 94279

916-323-9555

or

800-400-7115

Fax:

916-327-0859

Employment Development Department (EDD)

800 Capitol

Mall, MIC:83

Sacramento,

CA 95814

800-758-0398

www.edd.ca.gov

CAL/OSHA

7575

Metropolitan Dr.

Suite 204

San Diego, CA

92108

619-767-2060

ABC

1350 Front St,

Room 5056

San Diego, CA

92101

619-525-4064

Secretary of State, Trade-mark Unit

1500 11th

Street, Suite 345

Sacramento, CA

95814 or

P.O. Box

944225

Sacramento, CA

94244

916-653-6814

www.ss.ca.gov

California Department of Consumer Affairs

800-952-5210

or

916-445-1254

FOR FEDERAL TAXES SIMPLICITY, ACCURACY AND CONSISTENCY is the new message from the Internal Revenue Service. A business owner should have an accountant or tax attorney explain the various methods of accounting, depreciation schedules, and the timing of business transactions which can affect tax figures. Keep your records as simple and accurate as possible, while maintaining consistency from year to year.

The first step for any business, in regards to federal taxes, is to obtain a copy of the IRS's *Publication 454, Your Business Tax Kit*. It will include a variety of applications and publications to get you started and better organized in keeping records, filing, and pay taxes.

Small business owners can also learn about business taxes in the IRS's *Small Business Tax Education Program*. There are no cost seminars and workshops, with a wide variety of tax topics, and are offered throughout the year.

Other federal agencies publish a wide variety of pamphlets to assist small businesses in other areas of interest. Write to the Superintendent of Documents using the information listed on this page.

FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN)

All Partnerships and Corporations are required to obtain a Federal Employer Identification Number, (FEIN) through the United States Internal Revenue Service. This number will be used to make tax deposits and file annual returns. Sole Proprietors may use their Social Security Number unless there are employees, a need for an excise tax is evident, or another IRS procedure requires a FEIN.

Within the IRS's *Your Business Tax Kit*, there is an application to register for a FEIN, *Form SS-4*. Complete and mail the application at least 4 to 5 weeks before you will need a FEIN, because it will take over a month to receive your assigned number. Applying at the earliest possible date will help ensure that you receive tax deposit coupons in time for depositing the federal payroll or corporate income tax.

The IRS also publishes a *Circular E, Employer's Tax Guide* to help new employers with federal income tax withholding and Social Security tax requirements. Both of these IRS publications, and necessary applications, are usually included in local business start-up kits. Starting your business with the information that these kits provide will not only save time, money, and energy waiting in countless lines downtown, they will start you off in an organized manner, leaving you ready to take your next step.

If you become the new owner of an existing business, other than a corporation, do not use the FEIN of the former owner. If you already have a FEIN use that number. Contact the IRS for more detailed information.

PAYEE'S IDENTIFICATION NUMBER

In the operation of a business, you will probably make certain payments that will need to be reported on IRS – *Information Returns*. You must give the recipient of these payments, the payee, a statement showing the total amount paid during the year, including both the payee's as well as your own Employer ID numbers.

The IRS compares the payments shown on the information returns with each person's income tax return to see if the payments were included in income. For more details on information returns and filing dates, see the instructions for *Forms 1099, 1098, 5498, and W-2G*.

If you are an employer, you must obtain a Social Security Number (SSN) from each of your employees. If your employee does not have an SSN, they must file *SS-5, Application for a Social Security Card*, with the Social Security Administration.

The Superin-
tendent of
Documents
U.S.
Government
Printing
Offices
P.O. Box
371954
Pittsburgh, PA
15250
www.access.
gpo.gov/
su_docs/

If you make payments to a non-employee that you will report on an information return, you will need to obtain a SSN from each individual, including sole proprietors. If you make payments to an organization, such as a corporation or partnership, you must obtain their FEIN. To record the payee's SSN or FEIN, use *Form W-9, Request for Taxpayer Identification Number and Certification*.

PENALTIES OF NON-PAYMENT

To be sure that all taxpayers pay their fair share of taxes, the law provides penalties if you do not file returns or pay taxes as required. Criminal penalties may be imposed for willful failure to file, tax evasion, or making false statements.

FEDERAL BUSINESS TAXES

The legal form of business you operate determines what taxes you must pay, and how you pay them. There are four general kinds of business taxes: Income tax, Self-Employment Tax, Employment Taxes, and Excise Taxes. Federal employment taxes will be covered in the *Hiring Employees* section of this booklet.

DEPOSITING TAXES

You generally have to deposit employment taxes, certain excise taxes, corporate income taxes, and S-corporation taxes before you file your return. Mail or deliver deposits with completed *Form 8109, Federal Tax Deposit Coupon*, to an authorized financial institution or Federal Reserve Bank unless you make the deposits electronically.

FEDERAL INCOME TAXES

All businesses except partnerships must file an annual income tax return. Partnerships are required to file an information return. The federal income tax is a pay-as-you-go tax, meaning; you must pay the tax as you receive income during the year. Although an employee will usually have income tax withheld from wages, if you do not pay your income tax in that manner you will most likely have to pay an estimated tax. If you are not required to make estimated tax payments you may pay any tax due when you file your return.

FEDERAL SELF-EMPLOYMENT TAX

Self-Employment Tax (SE), is the Social Security and Medicare tax for individuals who work for themselves. Your payments of self-employment tax contribute to your coverage under the social security system, and will provide benefits for retirement, disability, and medical insurance, Medicare. You generally must pay SE tax if your self-employment net earnings are more than \$400. Refer to IRS *Publication 533*, and use *Schedule SE, Form 1040* to figure your self-employment tax.

SOLE PROPRIETORS

The majority of sole proprietors pay their federal income and self employment taxes in advance by filing quarterly estimates using *Schedule C, Form 1040, Profit or Loss From Business*. Estimated tax is the method used to pay tax on income that is not subject to withholding, for example: earnings from self-employment, interest, rents, etc. In addition, if you do not elect voluntary withholding you should make estimated tax payments on unemployment compensation and the taxable part of your social security benefits.

After the IRS receives your first payment voucher, *Form SS-4*, they will mail a *1040-ES* package with your name, address, and Social Security Number preprinted on each payment voucher. This will enable you to make the remaining estimated tax payments for the year.

In most cases, you must make estimated tax payments if you expect to owe, after subtracting your withholdings and credits, more than \$1,000 in tax for the year.

**Internal
Revenue
Service
Federal
Building**
880 Front
Street, 1st Floor
San Diego, CA
92101
800-829-1040
www.irs.gov
**Form &
Publications**
800-829-3676

North County
1 Civic Center
Drive, 4th Floor
San Marcos,
CA 92069
760-471-5940

PARTNERSHIPS

Partnerships normally do not have tax requirements, as they are a pass-through activity, and are not considered a taxable entity. Use *Form 1065, U.S. Partnership Return of Income*, to report the profit or loss of a partnership. For more information on partnerships, see *Publications 541, Tax Information on Partnerships*.

General partners are responsible for the same estimated tax payments as are sole proprietors. They will receive a *Form K-1* annually that will tell them exactly where to put estimated tax on their individual tax returns (i.e., Schedule B, E, SE, etc.). It must be remembered that partners are never employees.

CORPORATIONS

Income and deductions of corporations are computed at the corporate level, and taxes are paid on the corporation's taxable income. Most corporations file their tax returns on *Form 1120, U.S. Corporation Income Tax Return*. For more information on corporations, see *IRS Publication 542, Tax Information on Corporations*.

Additionally all officers of the corporation are considered to be employees of the corporation. This requires the *W-4 Form, 940 and 941*.

These are just a few of the vast regulations and taxes imposed on specific business transactions. Familiarize yourself with the most common rules, and consult a tax advisor for more detailed requirements.

TAX YEAR

You must figure your taxable income, and file an income tax return based on an annual accounting period called a *Tax Year*. A tax year is usually 12 consecutive months, and may consist of one of the following standard years. A calendar year begins January 1 and ends December 31. While a fiscal year is 12 consecutive months ending on the last day of any month other than December, or a 52-53 week year. Contact an accountant or the IRS for further details of determining the best schedule for your business.

ACCOUNTING METHOD

**Federal Trade
Commission**
310-824-4300

An accounting method is a set of rules used to determine when and how to report income and expenses in your books and your income tax returns. The two basic accounting methods are the Cash and the Accrual Method.

Under the Cash Method, you report income you receive during the year. You usually deduct expenses in the tax year you pay them.

Under the Accrual Method, you generally report income when you earn it, even though you may receive payment in a later year. You deduct expenses in the tax year you incur them, whether or not you pay them in the same year. If you need inventories to show income correctly, you must generally use an Accrual Method of accounting for purchases and sales. An accounting method clearly shows income only if it treats all items of gross income and expenses the same from year to year.

Contact an accountant or the IRS for further details on methods of accounting.

BUSINESS EXPENSES

You can deduct business expenses on your income tax return. To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate for your business, trade, or profession.

A few examples are: business start-up costs, depreciation, business use of the home, and car expenses. There are many other expenses that you may be able to deduct. Review IRS *Publication 535, Business Expenses*.

FEDERAL EXCISE TAXES

Federal excise taxes are imposed on the manufacture, sale, or use of a variety of products, certain business transactions, and on specific occupations. For example, there are manufacturer's excise taxes on trucks, equipment, petroleum products, and firearms. Any business involved in liquor, gambling, or firearms will most likely be subject to an occupational excise tax. Contact the IRS for further details.

Form 720 from the IRS is used to report a wide variety of excise taxes including communications, air and ship transportation taxes, fuel taxes, luxury taxes, some retail, manufacturers, and environmental taxes.

Excise taxes are due without assessment or notice. The business owner should check with the IRS to determine any specialized taxes to which the business may be subject. An Excise Tax Calendar is included in the IRS's *Your Business Tax Kit*. The calendar will give due dates for filing and making tax deposits.

Form 2290 is used to pay the annual federal use tax on trucks, truck tractors, and buses used on public highways and registered in your name.

FEDERAL PRODUCT LABELING REQUIREMENTS

If you are producing a product that requires a commercial label, contact the Federal Trade Commission.

FEDERAL OCCUPATIONAL SAFETY & HEALTH (OSHA)

Federal laws set safety standards designed to prevent injuries arising from unsafe or unhealthy working conditions. OSHA imposes several reporting and record keeping obligations for business owners. If you have employees, consult with an attorney with OSHA expertise to determine federal and state regulations. Contact the U.S. Department of Labor, OSHA for publications and free consultation services.

FEDERAL MISCELLANEOUS PERMITS

Unless your new venture is rendering investment advice, making alcohol or tobacco products, preparing meat products, making or dealing in firearms or engaging in interstate commerce, you will most likely not need a federal license. Consult with an attorney to determine the regulatory procedures of your specific industry.

**Federal
Permits**

**Interstate
Commerce
Department
of Trade and
Commerce**
619-557-5395

**Preparation
of Meat
Products
Department
of Agriculture**
858-557-7074

**Government
Property Use
Bureau of
Land &
Management**
909-697-5200

**Radio &
Television
Stations
Federal
Communica-
tions
Commission**
888-225-5322

**Preparation
of Tobacco,
Liquor or
Forearms
Federal
Bureau ATF**
800-283-4867

AS A BUSINESS OWNER, YOU HAVE TAKEN ON EXTRA RESPONSIBILITIES when you decide to hire your first employee. You become an intermediary to the government to collect and deposit a variety of taxes. There is an obligation to meet various payroll tax deadlines as well as pay and file tax returns for federal and state unemployment taxes. You are required to withhold, from employee's wages, a variety of federal and state income taxes as well as Social Security Taxes, FICA, and Medicare Taxes.

In addition, your business must be in compliance with worker's compensation, employee health and safety, anti-discrimination, U.S. Immigration, and a variety of other state and federal labor regulations.

A preliminary step is for each employee to obtain a *Social Security Card, Form SS-5*, from the Social Security Administration, registering them in a national employment database.

Before you hire your first employee, even a relative, write down basic personnel and employment policies. Describe working hours, vacation time, and sick leave so you minimize any potential misunderstandings in the workplace.

STATE REQUIREMENTS

If you hire employees, you are required to register with the California Employment Development Department (EDD) within 15 days of paying your first wages. The EDD regulates State Disability Insurance, Unemployment Insurance Tax, California Personal Income Tax Withholding for employees, and Employment Training Tax.

The California Employer's Guide is published to assist business owners in understanding their rights and responsibilities as an employer. The guide clarifies provisions of the State Unemployment Insurance Code, and its applications for each business or industry, and contains procedures required for compliance with payroll, and Personal Income Tax withholding regulations. Contact your local Employment Tax Customer Service Office for advice regarding your responsibilities as an employer.

Unemployment Insurance Tax (UI)

Businesses with employees are required to pay both state and federal unemployment taxes. In general terms, the more unemployment benefits your former employees claim, the higher unemployment tax rate you will pay.

The purpose of California's unemployment insurance is to provide financial assistance to people who are temporarily out of work through no fault of their own. The program is financed through an employee payroll tax, and employers are required to pay their accumulated UI taxes four times a year.

Personal Income Tax Withholding (PIT)

Employee wages that are subject to California Personal Income Tax (PIT) withholding consist of all compensation for services performed by an employee, with certain exceptions. Wages include, but are not limited to, salaries, fees, bonuses, commissions, and payments in forms other than cash or checks. Wages in any form other than cash or checks are measured by fair market value of the goods, such as, lodging, meals, or other compensation given in payment for the employee's services.

An *Employee's Withholding Allowance Certificate, Federal Form W-4*, can also be used for California income tax withholding. However, if the marital status claim, or the number of allowances is different than the federal claims, the employee should file a *DE-4*, and the employer must use that to determine California PIT withholdings.

The employer will prepare the annual wage and tax statement, IRS *Form W-2*. If you need information on the requirements for *Form W-2*, please refer to IRS *Publication 15, Circular E*. Do not send W-2's to the California Employment Development Department or Franchise Tax Board.

California's Personal Income Tax laws, as they relate to the employers income from business operations, is administered, and collected by the California Franchise Tax Board (FTB).

Employment Development Department (EDD) Job Service Assistance

EDD Job Services will assist employers with no-fee employment services. Extensive programs are available to assist employers with finding qualified employees, provide a variety of employee training programs for new hires, retain existing employees and professionally screen trainees using standardized proficiency and aptitude tests, bonding, and employer incentive programs. To obtain unemployment insurance and job service information, contact the Employment Development Department's appropriate division as listed at side.

The Labor Market Information Division (LMID) produces numerous publications to help with important business decisions. You can compare wages, benefits, skills, and educational requirements for selected occupations and areas throughout the state. You can also make strategic plans using industry, occupational and regional trend information. To request a complete list of publications call the LMID hotline.

Employment Training Tax (ETT)

The purpose of the Employment Training Tax (ETT) is to fund training in targeted industries to improve California's competitiveness. It is paid by employer's on each employee's first \$7,000 of annual income. Employers who have paid more unemployment benefits to their former employees than they have paid into their unemployment insurance account are not required to pay the ETT. Like the Unemployment Insurance Tax, employers are required to pay their accumulated ETT four times a year.

State Disability Insurance (SDI)

The State Disability Insurance Program (SDI) is regulated through the EDD, and provides benefits to eligible workers experiencing a loss of wages when they are unable to perform their usual work because of pregnancy, or non-occupational injury or illness. The SDI program is funded by withholdings from employee wages.

Remember that the Employment Development Department will regulate and collect various insurance related taxes, but will not sell insurance to employers. State Disability Insurance covers injuries or illnesses that are not work-related, while employment-related accidents are covered through Workers' Compensation Insurance Plans.

Workers' Compensation Insurance

State law requires that employers purchase Workers' Compensation Insurance through a private carrier, or the State Compensation Insurance Fund. The insurance protects the employer against losses due to work-related injury or illness, and provides the injured employee with benefits to compensate for lost wages or decreased ability to work, regardless of fault.

Insurance rates are based on the classification, the size of payroll, and the risk characteristics of your business. Your insurance carrier is responsible for establishing a specific rate for each account, and will perform a risk evaluation of your operations to estimate a fair price representation. Employers with a poor loss record or unsafe working conditions will eventually pay more than basic rates. Many Workers' Compensation benefits include Medicare (medical expenses), temporary and permanent disability, vocational rehabilitation, and death benefits.

EDD, Tax Office

3110 Camino
del Rio South,
Suite 100
San Diego, CA
92108
619-516-1920
or
240 West 2nd
Avenue
Escondido, CA
92025
760-737-2207

EDD Unemployment Insurance

800-300-5616

Labor Market Information Division (LMID)

916-262-2162

Employment Training Panel

619-686-1920

State Disability Insurance Claims, San Diego Office

858-689-6700

Industrial Relations Department Division of Workers' Compensation

1350 Front
Street, Suite
3047
San Diego, CA
92101
800-736-7401
or
619-767-2083

State Compen- sation Insur- ance Fund

10105 Pacific
Hghts. Blvd.
P.O. Box 85488
San Diego, CA
92121
858-552-7000

The State of California Industrial Relations Department provides information and assistance to businesses concerning workers' compensation regulations and benefits. For information and assistance on obtaining Workers' Compensation Insurance contact a private insurance carrier or the State Compensation Fund.

FEDERAL REQUIREMENTS

Federal Employer Identification Number (FEIN)

As mentioned in the *Federal Requirements* section, applying for your Employer Identification Number will be a preliminary step, especially when hiring employees. See this section for details on completing the IRS's FEIN application, *Form SS-4*.

Federal Employer Taxes

Publication 15, Circular E, Employer's Tax Guide is very helpful in explaining your responsibilities as an employer. It covers various due dates, both for filing returns and making deposits. Principally, it includes the following three federal taxes: the Federal Income Tax that you withhold from your employee's wages, taxes paid as an employer, and the Federal Unemployment Tax.

Generally, you will be required to deposit these under either a monthly or semiweekly rule, even though the calendar year is divided into quarterly deposit periods. If you fail to deposit federal taxes on time, you may have to pay penalties.

New employers are treated as having no tax liability during the quarters they had no employees.

Electronic Filing

As mentioned earlier, an Electronic Federal Tax Payment System (EFTPS) is available to make estimated tax payments. It is a safe, fast, and convenient way to make your payments. For more information, contact the Internal Revenue Service.

Federal – Employment/Social Security Taxes

All employers are required to withhold Social Security, FICA, and Medicare taxes from employee's wages, as well as pay an equal amount of this tax to the Internal Revenue Service. Sole proprietors and partnerships pay a self-employment tax in lieu of Social Security for themselves. In most cases, many federal employment taxes may be combined and mailed to the IRS by using a payroll tax return, *Form 941* series, either quarterly or yearly, depending on specific requirements. If you have a significant amount of taxes you will most likely be required to deposit the taxes with an authorized commercial bank.

Federal Income Tax Withholding

An employer should furnish every employee with an *Employee's Withholding Exemption Certificate, Form W-4*. Each employee will complete and return the W-4 to the employer, providing them with the Social Security number and the number of withholding exemptions they are claiming from their wages. This determines the amount of income tax the employer will withhold from the employee. Employers will keep the W-4 for their records. Exemption information in the *Circular E, Employer's Tax Guide* will indicate the minimum amount to withhold from every paycheck.

You are then required to furnish each employee with a copy of the Annual Wage and Tax Statement, *Form W-2*, by January 31st of each year. This assists the employee in filing their individual tax return, and explains the taxes they paid during the preceding year. The employer then files the original W-2 form and other documents with the IRS by February 28th.

Federal Unemployment Tax

The Federal Unemployment Tax (FUTA) pays unemployment compensation to workers who lose their jobs. In most cases, if you have an employee you will need to pay FUTA. Employers report and pay FUTA separately from Social Security, Medicare, and income taxes withheld, and will deposit the tax with a *Federal Tax Deposit Coupon, Form 8109*, at an authorized bank during the month following the end of the quarter.

FUTA is solely the responsibility of the employer, and is reported annually on *Form 940* or *940EZ*. The *940EZ* is a simplified return for small employers who qualify.

Independent Contractors

An independent contractor is someone who is self-employed. There are certain situations when an employer may use them instead of hiring a new employee. This may have advantages, such as decreasing your employment taxes, but there are also serious penalties if an employee is improperly classified as an independent contractor. Consult your tax advisor and the IRS regarding employee classification.

Immigration Regulations on Hiring

Within three business days of hiring each employee, certain documentation must be received and recorded on *Employment Eligibility Verification, Form I-9*. For general information and an INS publication *Handbook For Employers*, contact Immigration and Naturalization Services (INS).

Fair Employment & Anti-Discrimination Practices

You are subject to heavy penalties if you hire an undocumented person, or discriminate on the basis of sex, age, citizenship status, national origin, foreign appearance, language, religion, and mental or physical disabilities, etc.

The U.S. Department of Justice will provide assistance pertaining to establishing identity and work eligibility for employees, and will instruct employers on how to avoid discrimination when filling out *Form I-9*.

Also, consult an attorney or the Department of Labor for detailed guidelines on how to avoid discriminating practices in the workplace.

Employee Wage-Hour and Child Labor Laws

Contact the local wage-hour office or an attorney to find out which laws apply to your specific business.

Employee Retirement Income Security Act (ERISA)

Consult a tax advisor if you provide employees with benefits such as, group insurance, pensions, profit sharing, retirement plans, etc. There are serious penalties if you do not comply with ERISA reporting requirements.

Employee Safety and Health Requirements

A variety of federal and state safety laws set standards to prevent injuries arising from unsafe or unhealthy working conditions. Although all businesses are required to meet safety and health standards, hiring employees will ensure that regulators keep a closer eye on daily business operations. Occupational safety standards such as CAL/OSHA and federal OSHA are both discussed in the *State* and *Federal Requirements* sections.

**Immigration
and Naturaliza-
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INS Federal
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880 Front
Street
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San Diego, CA
92101
800-375-5283

**U.S. Depart-
ment of
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7575
Metropolitan
Drive, Suite 202
San Diego, CA
92108-4402
800-255-8155